Relevance of smart supply chain configuration

Since the 1990ies many industries saw a tendency to outsource activities previously done in-house to new service providers – MRO in aviation is a case at hand. However, the initial euphoria has given way to a much more differentiated picture. Many outsourcing agreements did not yield the expected results. Many such agreements fail, without any apparent clue as to why this happened. Usually, a whole plethora of issues contribute, such as a lack of competence by the provider, changing demands by the customer or incomplete contracts. One often overlooked issue, though, seems to be the willingness of the supplier to treat that particular customer as their preferred customer and award the necessary attention. Being a preferred customer or not explains part of the difficulties arising in outsourcing arrangements. At the same time, the understanding the chance to become a preferred customer of key suppliers may be a key to successful supply chain configuration.

Being a preferred customer of MRO providers

A firm has preferred customer status with a supplier when the supplier ensures preferential resource allocation to satisfy the buyer. What is meant by “preferential resource allocation”? For instance, the supplier dedicates its best personnel to join new product development or customizes its products in accordance with the preferred customer’s wishes. The provider may also offer innovations to this firm first or even enter into an exclusive agreement. The supplier may also ensure privileged treatment when constraints in production capacity result in bottlenecks. Successful outsourcing works exactly then, when a competitive supplier awards the customer preferred customer status. As a consequence, the expected service level is provided and in case of doubt, allocation issues are solved in favour of the preferred customer (effectively on the expense of the less preferred, regular customers).

From a preferred customer perspective supply chain configuration will depend on answers to the following questions: Are we as buyer sufficiently attractive for the outsourcing partner to get its prime attention? Who are the other customers our (potential) partner is serving? Can we ensure to be treated better than them, in order to achieve a competitive advantage in case them being our competitors? If these questions are answered negatively, in-house solutions may have to be seriously considered.

The University of Twente

The University of Twente is located in Enschede, next to the German border. It is one of the three technical universities of the Netherlands, combining technical and managerial approaches in a unique way. One of the university’s expertise centres, to which the Chair of Technology Management belongs, is UTIPS – The University of Twente Initiative for Purchasing Studies. UTIPS brings together scholars from three departments working on supply management issues, such as supply chain configuration. It has been recognized as one of five centres of excellence by the IPSERA association.